

September 29, 2011

Via Electronic Filing

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Re: *Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Lifeline and Link-Up, WC Docket No. 03-109*

Dear Ms. Dortch:

CTIA—The Wireless Association® (“CTIA”) supports the Commission’s efforts to reform the universal service fund (“USF”) and intercarrier compensation (“ICC”) system and this letter responds to two related questions that CTIA has received in recent Commission ex parte meetings. First, CTIA has been asked to further develop its point that lowering ICC rates, and allowing incumbent local exchange carriers (“ILECs”) to raise subscriber line charges (“SLCs”) to recover lost revenues, will increase efficiency and consumer welfare.¹ Second, CTIA has been asked to provide additional information responsive to the question in the *Further Inquiry Public Notice* regarding the extent to which “projected savings associated with intercarrier compensation reform for wireless carriers as proposed in the ABC Plan help offset reductions in high-cost support for competitive ETCs.”² As discussed in more detail below, the intense competitive forces in the wireless industry have consistently driven consumer prices down and incentivize providers to innovate. Based on this history of innovation and a consistent and almost uninterrupted decline in prices, it is logical to assume that consumers will experience significant benefits from future ICC reform, as they have in the past, whether through lower rates, innovative service plans, or improved network technology. As a result of these same competitive pressures, a robust Mobility Fund, which is completely in line with the Commission’s goal of driving ubiquitous mobile broadband, will still be needed, even after significant ICC reform.

Indeed, while competitive forces in the U.S. wireless industry have spurred carriers to consistently improve and expand their network capabilities, the Commission has acknowledged that there remain significant areas of the country for which there will be no profitable business

¹ See, e.g., CTIA Comments, WC Docket Nos. 10-90 *et al.* (filed Aug. 24, 2011) at 13.

² *Further Inquiry Into Certain Issues in the Universal Service-Intercarrier Compensation Transformation Proceeding*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109; CC Docket Nos. 01-92, 96-45; GN Docket No. 09-51, Public Notice, DA 11-1348 (rel. Aug. 3, 2011) (“*Further Inquiry Public Notice*”).

case for deployment. The FCC's Omnibus Broadband Initiative team found that "[p]rivate capital will only be available to fund investments in broadband networks where it is possible to earn returns in excess of the cost of capital."³ Thus, there is little evidence to suggest that wireless carriers would be able to use ICC reductions to fund significant wireless broadband networks in areas where deployment of such networks is otherwise uneconomic. As a result, access reductions cannot be seen as a substitute for sufficient universal service support for wireless networks to serve consumers in high-cost areas. Rather, as CTIA has recently shown, the scale of the ubiquitous mobile deployment challenge in high cost areas will require a significant commitment from policymakers, and the creation of a robust Mobility Fund must be an essential element of reform.⁴

Noted economist Jerry Hausman of MIT, in the study attached to the ABC Plan, observed that the Commission previously has taken action to reduce ICC rates and those previous rate reductions "led to significant gains in consumer welfare."⁵ Hausman found that decreases in ICC rates from 1996-2001 led to significant reductions in wireless rates.⁶ Notably, Hausman predicts that, as in previous instances, lower ICC rates will lead to lower prices for consumers, increased investment, and innovation.⁷ Hausman's prediction that prices will fall is based on economic literature demonstrating that "lower costs are passed through to consumers at a minimum rate of 50%, even for a monopolist."⁸ Further, empirical studies have found that the rate of pass through approaches 100% (or sometimes a rate greater than 100%) as competition increases.⁹ These studies have also found that, in competitive industries, the pass-through rate is typically about 100%.¹⁰ This is true especially when the entire industry experiences the same

³ Federal Communications Commission, OBI Technical Paper No. 1, *The Broadband Availability Gap*, at 1 (April 2010).

⁴ See Letter from Christopher Guttman-McCabe and Scott K. Bergmann to Marlene Dortch, FCC, WC Docket Nos. 10-90 *et al.* (filed Sept. 22, 2011), Att. 2011 U.S. Ubiquitous Mobility Study (demonstrating that ubiquitous mobile broadband will require between 7.8 to 21 billion dollars in initial investment alone, depending on the coverage goal).

⁵ Letter from Robert Quinn, AT&T; Steve Davis, Century Link; Michael Skrivan, Fairpoint; Kathleen Abernathy, Frontier; Kathleen Grillo, Verizon; Michael Rhoda, Windstream; to Marlene Dortch, FCC, WC Docket Nos. 10-90 *et al.* (filed July 29, 2011) ("ABC Plan"), Att. 4 at 5.

⁶ See ABC Plan, Att. 4 at 5-6.

⁷ *Id.*

⁸ *Id.* at 8 (citing J. Bulow and P. Pfleiderer, "A Note on the Effect of Cost Changes on Prices," *Journal of Political Economy*, 91, 1983; and J. Hausman and G. Leonard, "Efficiencies for the Consumer Viewpoint," *George Mason Law Review*, 7, 1999).

⁹ *Id.*

¹⁰ *Id.*

cost change.¹¹ Given the degree of competition among cellular carriers, Hausman concludes that any ICC rate decreases will most likely be passed through to consumers in lower prices and increased investment and innovation.¹²

As CTIA has discussed at length in other dockets, there can be no question that the U.S. wireless market is vigorously competitive.¹³ As of December 2010 there were more than 302.8 million active wireless subscribers in the U.S., an increase of approximately 17 million from 2008.¹⁴ As of July 2010, 74% of Americans had a choice of 5 or more facilities-based wireless providers, up from 64 percent a year before.¹⁵ In addition, 91% of Americans had access to 4 or more facilities-based providers, and 96% of Americans had access to 3 or more. Both the 10 largest Metropolitan Statistical Areas (“MSAs”) in the country and the 10 least populous Core Based Statistical Areas (“CBSAs”) in the nation experience intense competition. Each of the top 10 largest metropolitan areas had no fewer than 5 facilities-based wireless carriers and no less than 15 providers when MVNOs, resellers, and other non-facilities-based carriers are included.¹⁶ Each of the bottom 10 markets had no fewer than 3 facilities-based competitors, with 7 of the 10 having at least 5 facilities-based competitors. When non-facilities-based competitors are considered, consumers in 8 of the bottom 10 CBSAs by population had 14 or more competitive wireless choices.¹⁷ Thus, it is clear that by any measure U.S. consumers have considerable choice when selecting their wireless provider, and as a consequence these providers compete vigorously on every level of service to meet consumers’ wireless needs.

Consistent with expectations for a highly competitive market, the data show that wireless prices have fallen dramatically over time. Since December 1997, the price index for wireless services has fallen by 40%.¹⁸

¹¹ ABC Plan, Att. 4 at 9.

¹² ABC Plan, Att. 4 at 8–9 (citing D. Aron, *et al.*, “An Empirical Analysis of Regulator Mandates on the Pass Through of Switched Access Fees for In-State Long Distance Telecommunications in the U.S.,” Oct. 2010; R. Beard *et al.*, “The Flow through of Cost Changes in Competitive Telecommunications: Theory and Analysis,” *Empirical Economics*, 30, 2005; J. Hausman *et al.*, “Does Bell Company Entry into Long-Distance Telecommunications Benefit Consumers?” *Antitrust Law Journal*, 70, 2002)

¹³ Comments of CTIA—The Wireless Association®, WT Docket No. 10-133, at i (July 30, 2011).

¹⁴ See CTIA Semi-Annual Wireless Industry Survey, available at <http://www.ctia.org/advocacy/research/index.cfm/AID/10316>.

¹⁵ Comments of CTIA—The Wireless Association®, WT Docket No. 09-66, at 3 (June 15, 2009).

¹⁶ See *id.*

¹⁷ See *id.*

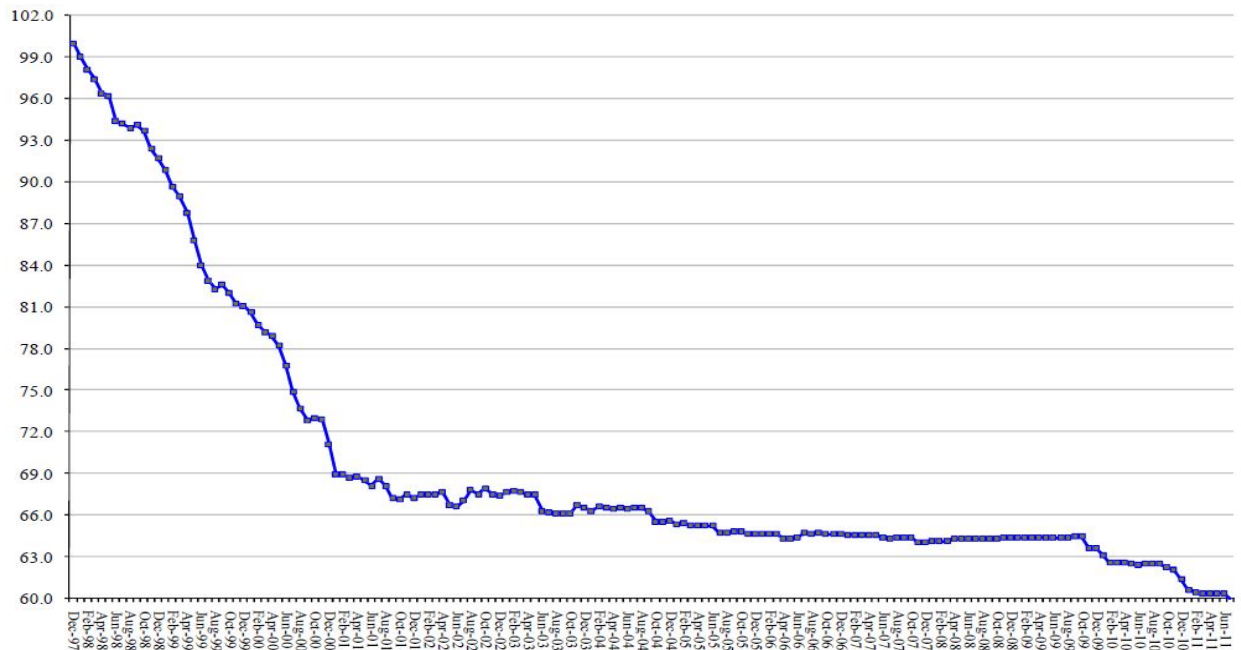
¹⁸ United States Bureau of Labor Statistics, Wireless Price Index.

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Monthly Trend in Wireless Prices (per the Bureau of Labor Statistics)

BLS Wireless Price Index: 1997-2011

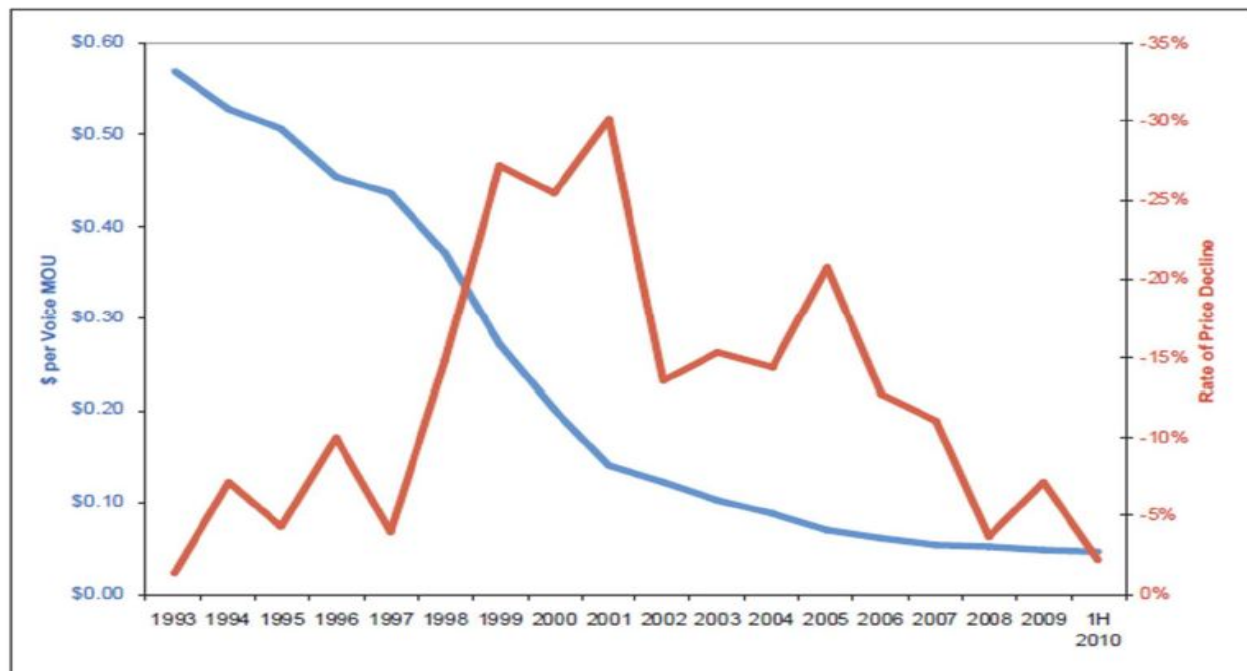


Source U.S. BLS Wireless Price Index

Similarly, wireless carriers' average revenue per minute has fallen from nearly 50¢ in 1996 to below 5¢ in 2010.

Annual Trend in Wireless Voice Revenue per Minute

Mobile Wireless Voice Revenue per Minute: 1993-2010



Source: FCC 15th Wireless Competition Report

In addition to consumer rate reductions, access rate reductions in the last decade also facilitated wireless carriers' ability to offer innovative pricing plans that contributed significantly to the rapid growth in wireless usage among American consumers. The first major pricing innovation facilitated by prior access rate reductions was the elimination of "roaming" charges and the emergence of "any distance" wireless pricing plans, such as digital "one rate" plans. Since then, wireless carriers have introduced other significant pricing innovations, including free night and weekend calling, rollover minutes, free calls within designated circles of individuals, prepaid calling plans, and much more.

Professor Hausman's study also suggests that the benefits of the competitive pressure brought by wireless providers will likely also accrue to the benefit of wireline consumers. Hausman predicts that, "given the ... degree of competition between wireline telephone providers and all intermodal providers such as cable companies, so-called 'over-the-top' VoIP services that ride broadband connections, and wireless services, I would expect approximately all of any intercarrier compensation rate decreases to be passed through ... to consumers."¹⁹ Also,

¹⁹ ABC Plan, Att. 4 at 9.

as the Commission itself has observed, most wireline consumers today purchase packages of local and long distance service from the same provider.²⁰ Because ICC rate reductions will reduce the cost of providing long distance service, the price of these packages can be expected to fall. In addition, of course, the benefits of lower ICC rates will flow to those wireline customers – becoming more numerous each year – that choose to subscribe to wireless service instead of wireline service.²¹

Vigorous competition in the U.S. wireless marketplace has also led wireless carriers to expend significant resources on improving network technologies. Carriers invested in innovative digital technologies, leading to the industry's migration from analog technology to Second Generation (2G) digital technologies, such as Code Division Multiple Access (CDMA), Global System for Mobile Communications (GSM), integrated Digital Enhanced Network (iDEN), and Time Division Multiple Access (TDMA). Continued investment and innovation resulted in 2G technologies being replaced with faster and higher capacity technologies, including Wideband CDMA (WCDMA), High Speed Packet Access (HSPA), HSPA+, and evolution-data optimized (EV-DO) technologies.²² Driven by competitive forces, U.S. carriers have made substantial commitments to the deployment of next generation technologies, including both WiMAX and LTE.²³

Competition also forces wireless carriers to invest in their networks to improve service quality, where it is economically feasible to do so. By the end of 2009, U.S. wireless carriers' cumulative capital expenditures totaled more than \$285 billion, an increase of more than \$20 billion from year-end 2008 despite the current recession.²⁴ In December 2010, wireless carriers' cumulative capital expenditures totaled an amount more than nine times greater than the amount of cumulative capital expenditures made by wireless carriers as of December 1996.²⁵ Thus, history has shown that wireless carriers will be forced to pass any reduced access charges through to consumers in the form of lower rates, more innovative pricing plans, or new network technologies.

²⁰ *Connect America Fund, et al.*, WC Docket Nos. 10-90 *et al.*, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554, 4719 ¶ 531 & n.793 (2011).

²¹ *Id.* at 7.

²² *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Mobile Wireless, Including Commercial Mobile Services, Fifteenth Report*, 26 FCC Rcd 9664 (2011), Appendix B, at Tbl. 20 ¶¶ 2–5.

²³ Comments of CTIA—The Wireless Association®, WT Docket No. 10-133, at ii (July 30, 2011).

²⁴ Cumulative Capital Investment Passes \$285 Billion, *2010 CTIA Semi-Annual Wireless Survey*, available at <http://www.ctia.org/advocacy/research/index.cfm/AID/10316>.

²⁵ Cumulative Capital Investment Passes \$310 Billion, *2011 CTIA Semi-Annual Wireless Survey*, available at <http://www.ctia.org/advocacy/research/index.cfm/AID/10316>.

While these competitive forces have spurred carriers to consistently improve their networks capabilities and coverage, there remain significant areas of the country for which there will be no profitable business case for deployment. Indeed, the intense competitive forces in the U.S. wireless industry will likely limit the ability of wireless carriers to use savings from ICC rate reductions to deploy service in areas that are not otherwise economically viable. As noted, above, the Commission itself has found that “[p]rivate capital will only be available to fund investments in broadband networks where it is possible to earn returns in excess of the cost of capital.”²⁶ This observation is confirmed by the findings of the *2011 Ubiquitous Mobility Study*, recently filed by CTIA. In this study, CostQuest Associates (“CostQuest”) found that approximately 54 million U.S. residents and 62% of road miles in the U.S. do not have full access to dual mobile broadband services via EVDO and HSPA, well over five years after their initial deployments in the U.S. This demonstrates the continuing challenge of deploying mobile broadband in high cost areas. Thus, there is little reason to believe that monies that wireless carriers might save as a result of ICC reform are likely to offset in any meaningful way reductions in high-cost support for wireless networks. Instead, the Commission should reaffirm its commitment to “reasonably comparable” access to mobile broadband services by ensuring a robust Mobility Fund to support deployment and ongoing costs in high cost areas.

Finally, with regard to the question whether ICC reductions would “offset” USF support reductions for wireless carriers, it is entirely unclear why the Commission would undertake this type of comparison with regard to wireless carriers but not other ETCs, given that intercarrier compensation reform will lower costs for a broad range of providers. Expecting that wireless carriers – but only wireless carriers – will set aside ICC savings for network deployment in uneconomic areas would be neither competitively nor technologically neutral and thus would fail to satisfy statutory requirements.²⁷

As CTIA previously has argued in this docket, the Commission should ensure that its reformed universal service system provides sufficient support for mobile wireless networks, commensurate with the enormous value that consumers demonstrably place on mobility.

Respectfully submitted,

/s/ Scott K. Bergmann

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²⁶ Federal Communications Commission, OBI Technical Paper No. 1, *The Broadband Availability Gap*, at 1 (April 2010).

²⁷ Comments of CTIA—The Wireless Association®, WC Docket Nos. 10-90 *et al.*, at 16, 18 (Aug. 24, 2011).

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